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C O N F I D E N T I A L SECTION 01 OF 04 TEGUCIGALPA 001077

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STATE FOR EB/IFD, WHA/EPSC, INR/IAA, DRL/IL, AND WHA/CEN
STATE FOR L/LEI, EB/OMA
STATE PASS USTR
JUSTICE FOR CRIMINAL DIVISION/FRAUD SECTION/MARK MENDELSON
AND WILLIAM JACOBSON

E.O. 12958: DECL: 06/15/2017

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SUBJECT: HONDURAS: TELECOM LAW PROGRESS STALLED WHILE
CORRUPTION CONTINUES

REF: A. TEGUCIGALPA 271 05
[1](#)B. TEGUCIGALPA 838 07
[1](#)C. TEGUCIGALPA 782 07
[1](#)D. TEGUCIGALPA 925 07
[1](#)E. TEGUCIGALPA 736 07

Classified By: CDA JAMES WILLIARD FOR REASONS 1.4 (B) AND (D).

[1](#)1. (C) SUMMARY: Despite mounting pressure to agree upon a draft law to liberalize the telecommunications sector, the GOH and private industry representatives failed June 13 to come to an agreement. The action now moves to Congress where congressional leaders have promised passage of a previously agreed version. Meanwhile, more revelations of corruption at state telecom company Hondutel continues to demonstrate the strong ties that the company has with President Jose Manuel Zelaya's inner circle. Post is working with the Federal Communications Commission and Department of Justice officials to investigate the accusations of bribery and extortion by Hondutel and GOH officials. END SUMMARY.

STALLED TALKS ON NEW DRAFT

[1](#)2. (C) While a new, CAFTA compliant version of a Telecommunications law was sent to the GOH in December 2005 (ref A), the lame duck Congress under former President Ricardo Maduro never acted on it. Over the course of the next year and a half, the office of the Presidency under current President Jose Manual Zelaya submitted to Congress no less than two alternate versions, both of which, per industry sources, set back the telecommunications industry "several years." Confusion continued to grow as the versions submitted to Congress were withdrawn quietly, with Congressional sources never quite sure which version was current.

[1](#)3. (C) To reinvigorate the process, Post hosted a roundtable discussion with stakeholders on May 11 (ref B). Over the course of this meeting and two others, the main blocking point boiled down to the requirement that licenses in long distance and international calling be approved by Congress. The President's team, lead by advisor Hector Rodriguez and CONATEL (the Honduran telecom regulator) president Rasel Tome, continued to argue that international access codes were a scarce national resource, and needed to be approved as a concession by Congress. Private industry group ASETEL

counter argued that international access codes do not have a realistic limit and to involve Congress would simply be a delay tactic. The meetings appeared to be driving the two sides further apart. (Comment: Post agrees with ASETEL; recent legislation has clearly excluded some classic concessions, such as mining, from Congressional approval. End Comment).

¶4. (C) With the sides drifting apart, Post hosted an informal meeting June 12 between Rodriguez and ASETEL representative Jose Luis Rivera. Rodriguez had previously contacted EconChief through a third party. (Comment: Rodriguez apparently was uncomfortable with the direction being set by the President and wanted to clear where he stood with Post. End Comment). Over the course of two hours the two sides made considerable progress, and ended with a commitment to have Rivera present newly agreed upon remarks at a meeting scheduled for June 13.

¶5. (C) On June 14, Rivera called EconChief and indicated that talks fell down once again over the role of the Congress, with Tome leading the charge about international access codes as concessions that require Congressional approval. Rivera agreed at the end to supply a legal opinion of why the access codes did not qualify as concessions, and the sides agreed to meet again on June 22. Rodriguez apparently watched the proceedings quietly. (Comment: Calls to Rodriguez and the third party interlocutor have gone unanswered. Rumors have surfaced that Rodriguez has recently been diagnosed with a severe medical condition, potentially a brain tumor. End Comment).

¶6. (C) Rivera indicated to EconChief that he believes that

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once again this is a delay tactic, but will follow through so that the President's team doesn't accuse ASETEL of walking away from the table. His contingency plan is to work with President of Congress Roberto Micheletti, who has threatened to present, in the first days of the new Congressional session, the earlier version of the law that was agreed by all parties if President Zelaya cannot gain agreement on a new version. EconChief has consulted with Congressional Vice President Lizzy Flores, Liberal party Congresswoman Marcia Villeda, Micheletti's chief telecom advisor, and National party secretary Juan Orlando Hernandez about presenting the prior version in Congress, and all confirm it is a real possibility. (Comment: Post is now convinced that a new version cannot be approved without allowing the President's team to incorporate a series of clauses that will restrict free competition through bureaucratic bottlenecks. Success through the contingency plan with Congress is by no means assured, particularly since many Congressmen, potentially Micheletti himself) a former manager of Hondutel) may be benefiting from the on-going corruption. End Comment).

CORRUPTION CONTINUES AT HONDUTEL

¶7. (C) EconChief met June 13 with Henry Salgado, the Chief Anti-Corruption prosecutor at the Public Ministry, on the status of their on-going investigations of Hondutel. Salgado has focused his efforts on Hondutel interim manager Marcelo Chimirri (ref C), who has launched a high profile campaign against illegally pirated international calls, or "grey lines," yet is considered by many to be the main abuser of the illegal scheme. Salgado confirmed that Chimirri is operating a high powered network out of his house, which is directly connected to another network in the nearby house of President Zelaya (ref D). Chimirri also controls several cable companies that are suspected of receiving illegal international calls, which are distributed locally through Liberal party godfather Jaime Rosenthal's company Cablecolor. (Note: Rosenthal is also the father of Minister of the Presidency Yani Rosenthal. End Note).

¶8. (C) Salgado indicated that he is proceeding with the

investigation along several lines: (1) How is the legitimate international traffic being terminated in Honduras, through what contracts and terms, and how public bids for services is being conducted; (2) an internal audit of Hondutel, which he is directing through a GOH government audit agency (TSE); (3) a technical audit of Hondutel facilities to determine how much traffic is reported versus actually terminated, conducted by an independent team from the International Telecommunication Union (ITU); and (4) an investigation of flows of money to key Hondutel managers. The investigations are now underway and he expects a team from the ITU to arrive as early as June 20.

¶9. (C) In terms of money to corrupt officials, Salgado is currently investigating rumors of a deposit of USD 10 thousand in late 2006 to Chimirri from Huntington Telecom, a carrier that contracted with Hondutel, through an account he controls called Inversiones Chicas. Salgado also informed EconChief that key Presidential advisor Raul Valladares declared to the Public Ministry before joining the President's team that he was owed USD 120 thousand by yet another carrier, Worldwide Telecom. Overall, Salgado is sending a request to the GOH Financial Investigations Unit (UIF) to identify and report on money flows out of more than 15 high ranking officials accounts. (Comment: The former head of the UIF, a strong manager that worked closely with Post, was recently dismissed in lieu of a more politically based manager. Post questions whether these requests, which strike at the heart of President Zelaya's inner circle, will be responded to in a timely and accurate manner. End Comment.)

A HISTORY OF CORRUPTION

¶10. (C) Since even before the high profile activities of Chimirri, corruption and Hondutel appear to have enjoyed a long and fruitful relationship. It is common knowledge that the state telecoms company has always been a source of

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campaign financing and employment for political supporters, and for many years was tolerated at an acceptable level. The former head of Hondutel under President Ricardo Maduro, Jesus Castanos, explained to EconChief June 8 that grey lines have always been a problem, but was manageable as long as certain key "accounts" were not touched. Castanos reported a "rumor" he had heard, that EconChief has heard through other sources, that President Maduro himself operated a grey line operation out of his house. (Comment: Not so far fetched when it's clear current President Zelaya is operating a considerable network in his own house. Operations within the President's house apparently have always been historically untouchable. Perhaps these spoils always went to the current election cycle winner. End Comment).

¶11. (C) Castanos sized the amount of illegal grey line traffic at about 10 percent. Working with the Federal Communications Commission (FCC), Econchief has learned that of the total of around 715 million minutes that the U.S. sent to Honduras in 2005, only 656 million (about 92 percent) was legitimate traffic. The other 8 to 9 percent of the traffic was terminated by companies that did not have official contracts with Hondutel, principally two named U.S. companies. The level of grey line trafficking was almost exactly the amount estimated by Castanos. (Comment: It is unclear under what agreement these two companies terminated traffic to Honduras. Would a carrier question a deal negotiated directly with the President of a country? End Comment).

¶12. (C) When the new administration of President Zelaya came to power, the first manager of Hondutel, Jacobo Regalado, consequently inherited an enterprise that held grey line trafficking at an acceptable, albeit profitable, level. Regalado explained to EconChief in a June 8 meeting that he attempted to make grey line trafficking legitimate by

contracting directly with suspect carriers, reasoning that bringing them into the open was worth negotiating a lower formal rate. The number of international carriers terminating traffic to Honduras then jumped from five to nineteen under his watch. Interestingly, the two named U.S. companies did not sign formal contracts. (Comment: This may be because they already had strong, yet informal, relationships. End Comment).

¶13. (C) EconChief obtained copies of the fifteen new contracts signed under Regalado, and the level of incompetence, or most likely outright corruption, is astonishing. Each contract was negotiated with a standard rate of around 17 U.S. cents per minute for termination, yet each contain at least one, sometimes three, "confidential" clauses that arbitrarily changes the rate to as low as 14 U.S. cents per minute. Interestingly, EconChief obtained an internal Hondutel accounting sheet that demonstrates that many times the actual rate charged to the carriers is even lower, indicating that yet more confidentiality agreements exist. Regalado agreed that he made "some mistakes" in contract negotiations. (Comment: The manager tha replaced Regalado, Jacobo Lagos, indicated thatanother scheme used by the carriers is to identiy a portion of traffic "in dispute" every month, then never resolve or pay the disputed amount. Pe Post sources, every single active carrier owes moey to Hondutel, with one owing more than USD 2 mllion. When Lagos threatened to cut service to he carriers, he was summarily fired by PresidentZelaya. End Comment).

¶14. (C) Post is working wth Department of Justice (DOJ) officials regardig the fifteen carriers and potential violations f the Foreign Corrupt Practices Act (ref E). Intrestingly, one high profile Washington lobbyist tht has been working with Post on the Hondutel issu over the last year also seems to be involved wih one of the carriers, LD telecom. In a converstion June 14, EconChief asked him whether his copany was still sending traffic to Hondutel. "We ave never have had an agreement with Hondutel," he responded. When EconChief began to describe the raceful arcs of his signature on the contract, te lobbyist responded with "Oh that contract," an proceeded to detail how they had signed a serie of confidentiality clauses to lower their

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rate. (Comment: LD Telecom is one of the companies with the infamous missing confidentiality clauses. End Comment). EconChief passed the lobbyist's name and number to DOJ officials.

¶15. (C) COMMENT: While Post has gamely tried to bring the telecom law negotiators closer to an agreement, President Zelaya and Chimirri have always been in the background holding the trump card. It is clear that several people in the President's circle, including perhaps President Zelaya himself, are benefiting from the grey line profits, reportedly as high as USD 500 thousand per month. And, while congressional leaders talk tough, ramming a bill through Congress is at best a risky venture. Post will continue to monitor events closely. END COMMENT.
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